

Ms. Carol Disbro, Director of Reimbursement  
Integrated Health Services, Inc.  
The Highlands  
910 Ridgebrook Road  
Sparks, Maryland 21152

Re: AC# 3-MRH-J9 – Magnolia Manor – Rock Hill, Inc.

Dear Ms. Disbro:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph P. Hayes

**MAGNOLIA MANOR – ROCK HILL, INC.**

**ROCK HILL, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2000  
AC# 3-MRH-J9**

**AGREED-UPON PROCEDURES REPORT**

**ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## **CONTENTS**

	<b><u>EXHIBIT OR SCHEDULE</u></b>	<b><u>PAGE</u></b>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2000	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1999	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

January 22, 2003

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor – Rock Hill, Inc., for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Magnolia Manor – Rock Hill, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor – Rock Hill, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor – Rock Hill, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
January 22, 2003

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**MAGNOLIA MANOR - ROCK HILL, INC.**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2000  
AC# 3-MRH-J9

10/01/00-  
09/30/01

Interim Reimbursement Rate (1)	\$94.68
Adjusted Reimbursement Rate	<u>93.05</u>
Decrease in Reimbursement Rate	\$ <u><u>1.63</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2000 Through September 30, 2001  
AC# 3-MRH-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$45.13	\$54.01	
Dietary		8.13	10.12	
Laundry/Housekeeping/Maintenance		<u>7.75</u>	<u>8.88</u>	
Subtotal	<u>\$5.11</u>	61.01	73.01	\$61.01
Administration & Medical Records	<u>\$ -</u>	<u>13.60</u>	<u>10.55</u>	<u>10.55</u>
Subtotal		74.61	<u>\$83.56</u>	71.56
<u>Costs Not Subject to Standards:</u>				
Utilities		2.32		2.32
Special Services		.50		.50
Medical Supplies & Oxygen		3.15		3.15
Taxes and Insurance		.88		.88
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$81.46</u>		78.41
Inflation Factor (3.20%)				2.51
Cost of Capital				7.17
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.11
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.36)
Nurse Aide Staffing Add-On 10/01/99				1.62
Nurse Aide Staffing Add-On 10/01/00				<u>1.59</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$93.05</u>

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-MRH-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,696,280	\$ 26 (4) 1,697 (6)	\$ 1,501 (4) 13,611 (5)	\$1,682,891
Dietary	303,026	91 (4)	-	303,117
Laundry	73,495	-	-	73,495
Housekeeping	139,126	-	-	139,126
Maintenance	76,316	-	9 (4)	76,307
Administration & Medical Records	461,923	79 (4) 1,849 (4) 13,611 (5) 74,406 (6)	35,631 (2) 9,009 (3)	507,228
Utilities	86,570	-	-	86,570
Special Services	26,213	-	536 (4) 922 (6) 6,065 (8)	18,690
Medical Supplies & Oxygen	117,538	-	-	117,538
Taxes and Insurance	32,827	-	-	32,827
Legal Fees	-	-	-	-
Cost of Capital	306,444	7,452 (7)	4,559 (1) 41,803 (6)	267,534
Subtotal	3,319,758	99,211	113,646	3,305,323



**MAGNOLIA MANOR - ROCK HILL, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-MRH-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	59,383	-	-	59,383
Non-Allowable	259,441	4,559 (1) 35,631 (2) 9,009 (3) 1 (4) <u>6,065 (8)</u>	33,378 (6) 7,452 (7)	273,876
Total Operating Expenses	<u>\$3,638,582</u>	<u>\$154,476</u>	<u>\$154,476</u>	<u>\$3,638,582</u>
Total Patient Days	<u>37,287</u>	<u>-</u>	<u>-</u>	<u>37,287</u>
Total Beds	<u>106</u>			

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-MRH-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 2,200	
	Other Equity	12,725	
	Nonallowable	4,559	
	Accumulated Depreciation		\$ 14,925
	Cost of Capital		4,559
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	35,631	
	Administration		35,631
	To disallow rental payments on a capital lease HIM-15-1, Section 110B		
3	Nonallowable	9,009	
	Administration		9,009
	To remove storage fees not related to patient care HIM-15-1, Section 2102.3		
4	Restorative	26	
	Dietary	91	
	Administration	79	
	Medical Records	1,849	
	Nonallowable	1	
	Nursing		1,501
	Maintenance		9
	Special Services		536
	To adjust the fringe benefits allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Medical Records	13,611	
	Nursing		13,611
	To record salaries in the proper cost center DH&HS Expense Checklist		

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-MRH-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nursing	1,697	
	Administration	74,406	
	Nonallowable		33,378
	Therapy		922
	Cost of Capital		41,803
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Cost of Capital	7,452	
	Nonallowable		7,452
	To adjust capital return State Plan, Attachment 4.19D		
8	Nonallowable	6,065	
	Special Services		6,065
	To adjust co-insurance for Medicare Part B Services State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$169,401</u>	<u>\$169,401</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-MRH-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>106</u>
Deemed Asset Value	3,833,490
Improvements Since 1981	635,295
Accumulated Depreciation at 9/30/99	(1,056,499)
Deemed Depreciated Value	3,412,286
Market Rate of Return	<u>.060</u>
Total Annual Return	204,737
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	204,737
Depreciation Expense	64,027
Amortization Expense	-
Capital Related Income Offsets	(1,230)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	267,534
Total Patient Days	<u>37,287</u>
Cost of Capital Per Diem	\$ <u><u>7.17</u></u>

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-MRH-J9

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.53
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.52</u>
Reimbursable Cost of Capital Per Diem	\$ 7.17
Cost of Capital Per Diem	<u>7.17</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>